

**MEETING MINUTES**

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
RETIREMENT BOARD OF AUTHORITY MEETING**

September 14, 2011  
10:00 AM – 12:00 PM

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

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**I. CALL TO ORDER**

The Retirement Board of Authority (RBOA) was called to order by Gail Beal, Senior Vice President Keenan Financial Services (KFS) at 10:05 AM.

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**II. ROLL CALL**

**RETIREMENT BOARD OF AUTHORITY (the “Board”) MEMBERS**

Vice Chancellor, Fiscal Services	Charlie Ng
Vice Chancellor, Human Resources	Vacant
Business Manager	Steven Sutorus
Director, Human Resources	Vacant
Director, Fiscal Services	Penny Ongoco

**PROGRAM COORDINATOR**

Senior Vice President	Gail Beal
Senior Vice President	Claudia Ross
Account Manager	Roslyn Washington

**CONSULTANTS**

Morgan Stanley Smith Barney	Cary Allison
Benefit Trust Company	Scott Rankin

**GUESTS**

Senior Account Manager	Karyn Goodsite
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**OTHER**

None

**Those absent were:**

Director, Internal Audits	Tanya Rogers
Chancellor (Guest)	Bruce Baron

**Roll Call Notes**

The Vice Chancellor, Human Resources position on the Retirement Board of Authority (RBOA) will be filled as of September 15, 2011.

The Director, Human Resources position is being eliminated from the Retirement Board of Authority.

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**III. APPROVAL OF AGENDA**

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

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**IV. APPROVAL OF MINUTES**

A motion to approve the Minutes from the RBOA Meeting of March 29, 2011 was made by Board member Charlie Ng, seconded by Board member Steven Sutorus and unanimously carried by the Board.

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**V. CORRESPONDENCE**

There was no Correspondence presented.

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**VI. INVESTMENTS**

**PORTFOLIO REVIEW**

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided an overview of the District's Investment Trust Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending August 31, 2011. As of August 31, 2011, the District's Investment Trust portfolio had an allocation of 56.5% in fixed income funds and 43.5% in equity funds (equity funds comprised 27.2% in domestic equity and 16.3% in international equity). The value of the Portfolio as of December 31, 2010 was \$1,534,537.66 and as of August 31, 2011, the value of the Portfolio is \$1,544,252.21. The August 31, 2011 portfolio value represents an annualized inception to date net rate of return of 0.96% compared to the S&P/Barclays Blend of 2.40%. The investment results for the last 12 months show a net increase of 8.80% compared to the S&P/Barclays Blend of 11.68% and the Barclays Aggregate of 4.65%.

Cary noted that the District's Portfolio has three global bond funds and that none of these funds have any exposure to the Euro zone countries of Portugal, Italy, Greece or Spain (PIGS). Board member Penny Ongoco inquired as to whether the total market value listed in the District's Portfolio Review is reduced by ongoing management fees. Scott Rankin of Benefit Trust Company (BTC) answered yes and noted that the rebalancing of the portfolio and the liquidation of assets also affects the cost. Cary Allison of Morgan Stanley Smith Barney (MSSB) advised that dividends are automatically re-invested at the end of the year.

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A motion was made by Board member Steven Sutorus to accept the Portfolio Review as presented, seconded by Board member Charlie Ng, and unanimously carried by the Board.

**MARKET OVERVIEW**

For period ending June 30, 2011, Cary Allison of Morgan Stanley Smith Barney (RBOA) provided Board members with Asset Allocation and Portfolio Updates for the Futuris Portfolio Models.

Cary reviewed fund changes in the District's Investment Trust portfolio and provided an example as to why changes were made. Cary advised that the PIMCO Total Return Fund (PTTRX) was traded for Prudential Total Return Fund (PDBZX) because the PIMCO Fund became too large to manage.

Cary noted fund changes in the District's Investment Trust portfolio as follows:

- Domestic Equities -- Royce Special Equity (RSEIX) replaced Perkins Mid-Cap Value (JMCVX).
- Domestic Equities -- Prudential Global Real Estate (PURZX) replaced Cohen & Steers Global Realty I (CSSPX).
- International/Global Equities -- Royce Global Value (RGVIX) replaced Artio International Equity II (JETIX)/ Dodge & Cox International Stock (DODFX).
- Global Allocation – Blackrock Global Allocation (MALOX) was removed from this investment category.
- Fixed Income -- Prudential Total Return Bond Fund (PDBZX) replaced PIMCO Total Return (PTTRX).
- International Fixed Income – Brandywine Global Opportunities Bond was an addition to this investment category.

Cary also presented Morgan Stanley Smith Barney's (MSSB) "Asset Allocation and Strategy Commentary" (dated Sept. 12, 2011) tracking the current global economy.

- The commentary from MSSB presented multiple factors arguing in favor of equities as follows:
  - Negative real interest rates;
  - Robust Standard & Poor's 500 profits (+18.9% year-over-year for the first quarter of 2011; +12.0% year-over-year analysts' consensus estimates for the second quarter; +14.8% year-over-year estimated for the third quarter; and +16.2% year-over-year estimated for the fourth quarter);
  - Improving consumer borrowing activity and July retail sales;
  - Solid GDP growth in emerging economies in Asia and Latin America;
  - A likely soft landing in China (Morgan Stanley continues to estimate real GDP growth of 9.0% in 2011 and 8.7% in 2012);
  - More moderate crude oil and gasoline prices;
  - The increasing likelihood of additional monetary stimulus.
- Producer and consumer price inflation rates have risen from low levels and deflation risks have faded significantly.
- Equity 12-month forward price/earnings ratios are not excessive, and the earnings yield (the inverse of the P/E ratio) is at very high levels relative to Baa corporate bond yields.
- As of September 9, 2011 the consensus of analysts' forecasts for S&P 500 calendar year earnings growth is 15.7% for 2011 and 13.7% for 2012 according to Thomson Reuters.

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- High U.S. corporate cash levels and increased dividend payouts, stock buybacks as well as mergers and acquisitions activity.

Providing a summary overview of global market conditions, Cary indicated that emerging markets are still the driver of the global economy; developed economies have slowed down recently, but earnings are still strong; bonds are at historical lows; stocks are trading at eleven times earnings. MSSB does not think we are going into a double dip recession and the second half of the year will be better, although MSSB believe that slow growth will continue; interest rates have been positioned by the Feds at their lowest point for many years and will continue at these levels for at least another two years.

- **Morgan Stanley Smith Barney favors Bonds/Stocks over Bonds.**

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## **VII. EDUCATION**

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided Board members with an article entitled “States Begin to Address Long-Term Pension Obligations in Era of Fiscal Austerity”, prepared by BlackRock, Inc.

This article provided multiple key perspectives as follows:

- While pension liabilities are cause for concern, they will not by themselves generate a rash of municipal defaults.
- Each state is unique in its funding status, as well as its political climate, fiscal condition and legal framework.
- Many states have already begun the process of addressing pension liabilities.
- Local governments have multiple tools available to them to address pension funding issues, although those few municipalities with extremely underfunded pension liabilities may be put under state supervision or seek bankruptcy protection.
- Initiatives to establish consistent methodology to calculate liabilities and to improve transparency will likely lead to additional corrective actions.

Cary discussed the municipal bond market and pointed out that after a high-profile default prediction in late 2010, the market suffered a spike in rates that resulted in price weakness and a pronounced steepening of the municipal yield curve. This market volatility was exacerbated by the uncertain future of the Build America Bond (BAB) program, which had been bolstering market technical’s since its introduction in 2009. This program was left to expire at the end of the year. As a result of these developments, the fourth quarter of 2010 represented the municipal market’s worst quarterly performance since 1994.

Gail Beal of Keenan Financial Services (KFS) advised the Board of the GASB Exposure Drafts which were promulgated on July 8, 2011 as GASB issued two exposure drafts of amended Statements Nos. 25 and 27. The exposure drafts largely reflect the positions taken in the Preliminary Views issued in June 2010. In the Preliminary Views, GASB proposed that the discount rate used in financial reporting calculations be set equal to the expected long-term rate of return on plan assets to the extent that projected benefits would be covered by current and projected future plan assets.

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To the extent current and expected future assets are projected to be insufficient to pay projected benefits, the Preliminary Views called for them to be discounted at “a high-quality municipal bond index rate”. The exposure drafts have clarified that the municipal bond index rate to be used for this purpose is the index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher.

GASB will be accepting written comments until October 15, 2011 and will hold public hearings in October 2011. The GASB goal is to have final standards in place by June 2012.

Gail continued by noting that there have been discussions at GASB relative to granting grandfather status for public entities that have initiated OPEB Trust funding. The current discount rate for San Bernardino Community College District is 6% and this may be reduced as low as 4.5% if GASB requires the District’s OPEB Trust to be in compliance with the new proposed pension guidelines.

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**VIII. ADMINISTRATION**

**REVIEW OF THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE SUBSTANTIVE PLAN**

Roslyn Washington of Keenan Financial Services (KFS) discussed the newly created Electronic Library and confirmed that the electronic Data Discs have been delivered to the District. She also discussed the changes that will occur regarding District annual updates to the “Substantive Plan”. Roslyn inquired as to whether the District wanted to continue receiving hard copy format with their electronic updates. The Board declined the hard copy format.

**ANNUAL REPORTING ON THE STATUS OF THE TRUST**

The Annual Report on the status of the Trust was presented to the Board with all Fiduciary transactions detailed. Roslyn Washington of Keenan Financial Services indicated that she had confirmed with Kelly Goodrich at the District that the Annual Report had been posted in accordance with the District’s posting schedule and procedures.

A motion was made by Board member Charlie Ng to accept the posting protocol, seconded by Board member Penny Ongoco and unanimously carried by the Board.

**FUTURE TRANSFER OF ASSETS INTO THE TRUST**

The Board acknowledged that the District has set aside \$500,000.00 to fund the OPEB Trust. Board member Charlie Ng advised that the deposit to the District’s Investment Trust will be made subsequent to December 15, 2011 when they will know exactly what is going on with their budget and the money they will receive from the State. Claudia Ross of Keenan & Associates suggested making the deposit now while the market is low, but Charlie indicated that Dec 15, 2011 date was firm because they was so much uncertainty with their budget.

**RETIREMENT BOARD OF AUTHORITY (RBOA) BYLAWS**

A motion was made to defer this Agenda Item to the next meeting by Board member Charlie Ng, seconded by

Board member Steven Sutorus and unanimously carried by the Board.

### **PRIVATE LETTER RULING**

Gail Beal of Keenan Financial Services provided the Board with a brief update regarding the District's Private Letter Ruling (PLR) application for their OPEB Trust. Gail advised that attorney Brian Johnston of Polsinelli Shughart PC will be sending the Board a new memo addressing the current status of the PLR.

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## **IX. INFORMATION REPORTS**

### **RETIREMENT BOARD OF AUTHORITY COMMENTS**

There were no Retirement Board of Authority comments.

### **PROGRAM COORDINATOR/CONSULTANT COMMENTS**

There were no Program Coordinator/Consultant comments

### **VISITORS COMMENTS**

There were no Visitor comments

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## **X. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING**

The next Retirement Board of Authority meeting is scheduled as follows:

- March 8, 2012 @ 10:00 AM-12:00 PM

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## **XI. ADJOURNMENT**

A motion was made by Board member Charlie Ng to adjourn at 11:05 AM, seconded by Board member Penny Ongoco and unanimously carried by the Board.

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**Americans with Disabilities Act** The San Bernardino Community College District 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 College District Retirement Board of Authority meeting, shall be made to: Charlie Ng, Vice Chancellor of Fiscal Services, San Bernardino Community College District, 114 South Del Rosa Drive, San Bernardino, CA 92408