

MINUTES

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT  
RETIREMENT BOARD OF AUTHORITY MEETING

APRIL 19, 2012  
2:00 PM – 4:00 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) Meeting was called to order at 10:07 PM by Gail Beal, Senior Vice President of Keenan Financial Services.

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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, Internal Audits	Tanya Rogers
Director, Fiscal Services	Penny Ongoco

**PROGRAM COORDINATOR**

Senior Vice President	Gail Beal
Account Manager	Roslyn Washington

**CONSULTANTS**

Morgan Stanley Smith Barney	Cary Allison
Benefit Trust Company	(via phone) Scott Rankin

**GUESTS**

**OTHER**

None

**Those Absent were:**

Senior Vice President, Keenan & Associates	Claudia Ross
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**III. APPROVAL OF AGENDA**

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

#### **IV. APPROVAL OF MINUTES**

A motion was made to approve the Minutes of the previous meeting held on September 14, 2011 by Board member Charlie Ng, seconded by Board member Tanya Rogers and was unanimously carried by the Board members present.

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#### **V. INVESTMENTS**

##### **PORTFOLIO REVIEW**

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided an overview of the District's Public Entity Investment Trust Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending March 31, 2012. As of March 31, 2012, the District's Investment Trust portfolio had an allocation of 55.9% in fixed income funds and 44.1% in equity funds (equity funds comprised 28.4% in domestic equity and 15.7% in international equity). The value of the Portfolio as of December 31, 2011 was \$1,513,635.88 and with contributions of \$500,000.00 and withdrawals of \$3,622.98, the portfolio value as of March 31, 2012 is \$2,105,278.07. The March 31, 2012 portfolio value represents an annualized inception to date net rate of return of 1.77% compared to the Barclays Aggregate of 6.09% and the S&P 500 Adj for Divs of 1.24%. The investment results for the latest three years show a net increase of 15.28% versus the Barclays Aggregate of 6.85% and the S&P 500 Adj for Divs of 23.41%. The investment results for the latest 12 months show a net increase of 2.64% versus the Barclays Aggregate of 7.73% and the S&P 500 Adj for Divs of 8.53%.

In the Board materials presented, Cary also provided asset allocation and portfolio updates for the Futuris Public Entity Investment Trust Model Portfolios for period ending December 31, 2011.

In response to an inquiry from Board member Charlie Ng, Cary provided a brief overview of the Morgan Stanley Capital International (MSCI) Index that serves as a benchmark for the relative performance of international equity markets as represented by major equities from Europe, Australia and Southeast Asia – much like the S&P 500 Index in the United States. In this connection, Cary noted that relative to equity prices, the stock market in Europe is outperforming many markets at this time. Cary advised Board members that the Barclays Aggregate is the most commonly used benchmark to measure the relative performance of U.S. fixed income portfolios and is comprised of government bonds and investment grade corporate bonds – no junk bonds. Cary indicated that all dividends are reinvested in reply to an inquiry from Charlie Ng. Regarding the District's OPEB portfolio, Cary advised Board members that the current yield on the fixed income portfolio is 4.2% while the total portfolio has a current yield of 3.3%.

A motion was made to accept the Portfolio Review as presented by Board member Charlie Ng, seconded by Board member Penny Ongoco and was unanimously carried by the Board members present.

##### **MARKET OVERVIEW**

In the Board materials presented, Cary Allison of Morgan Stanley Smith Barney (MSSB) provided MSSB Consulting Group "Capital Markets Overview" for fourth quarter 2011. In the fourth quarter, equities bounced

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back, despite concerns over the cumulative effects on the global economy of the European sovereign debt crisis and the legislative standstill in the U.S Congress. The Dow Jones Industrials were up 12.8% for the fourth quarter, and 8.4% for the 12-month period. The NASDAQ Composite was up 7.9% for the quarter, but fell 1.8% for the 12-month period. The S&P 500 rose 11.8% for the quarter, and rose 2.1% for the year. All ten sectors of the S&P 500 Stock Sectors rose in the fourth quarter. Energy fared the best, with an 18.2% uptick. Industrials and Materials rose 16.5% and 15.4%, respectively. Utilities and Telecommunications Services were the laggards, rising 8.3% and 7.9%, respectively. Still, the possibility of a looming recession in Europe weighed on global growth expectations.

Both Morgan Stanley Smith Barney and Citi economists reduced global growth expectations for 2011 to 3.9% and 3.7%, respectively, and 3.5% and 3.0% for 2012. U.S. economic growth is expected by both Morgan Stanley and Citi to be around 1.7% in 2011 and about 2.0% in 2012. Given a growing belief that global growth is slowing, commodity prices declined in the fourth quarter. As risk aversion took hold, mergers and acquisitions activity decreased in the fourth quarter. Global mergers and acquisitions volume for the quarter totaled \$464 billion, down 15% from the third quarter. For 2011, global deal total dollar volume fell to \$2.6 trillion, just below the 2010 total dollar volume figure.

In a brief commentary on global market conditions, Cary noted that the S&P 500 is a much better benchmark for major U.S. equities than the DOW Jones Industrial Average which is comprised of only 30 stocks. Cary advised that equities are driven by earnings and historically major equities have paid 15-16 times earnings. Board members were advised that large corporations are extremely profitable and that the current 13 times earnings is low due to the global political environment. In this connection he advised Board members that the Eurozone will take years to get in line politically but he does not believe it will disintegrate.

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## **VI. EDUCATION**

Cary Allison of Morgan Stanley Smith Barney (MSSB) presented Equity Strategy perspectives – “The Raging Bull Strategy” by Tobias Levkovich of Citi Investment Research & Analysis, a division of Citigroup Global Markets, Inc. Mr. Levkovich wrote that the investment community has been distracted by having lost 50%+ in stocks twice since 2000, the plunge in home prices, peak-like margins, employment challenges and a potential European sovereign debt/banking crisis, but there are changes that may provide catalysts for a major shift in equity price direction. Mr. Levkovich noted six major developments that argue for a new secular bull market beginning within the next 12-18 months.

- Energy Independence – The U.S. is moving towards energy self sufficiency via the development of shale oil and gas fields as well as NGL substitution.
- Local Manufacturing Renaissance – An American manufacturing renaissance appears to be taking place. Reports of companies bringing back manufacturing to the USD have emerged due to higher land costs and wages in China and there appears to be a much more competitive dynamic in America currently.
- Technology-Based Transformational Change – Technological innovation and penetration of smart mobile devices is likely to compel major new investment.
- Demography – The demographics of the baby boom “echo” should support a new cadre of investors.
- Housing Sector Bottom – A nascent USD housing recovery could emerge after excess homes get absorbed in the middle of 2012.
- Fiscal Reform - Fiscal responsibility could address rising risk premiums and allow for multiple expansions.

## **VII. ADMINISTRATION**

### **STATUS OF ACTUARIAL STUDY**

Board member Steven Sutorus advised that the District's Actuarial Valuation Study is currently in draft format. Steven advised that the District is working with Geoff Kischuk of Total Compensation System, Inc. (TCS) and that a 6% discount rate is being assumed in this Actuarial Valuation Report. Because of the lower discount rate assumption, the District's total liability has increased since the last Actuarial Valuation Study.

### **FUTURE TRANSFER OF ASSETS INTO THE TRUST**

The Board noted that the District intends to maintain its current asset transfer schedule of depositing \$500,000.00 annually into the OPEB Trust. The District anticipates depositing another \$500,000.00 into the Trust in 2013. Relative to District deposits to the OPEB Trust, Cary Allison of Morgan Stanley Smith Barney (MSSB) advised dollar-cost-averaging to the markets on a quarterly basis and he noted that December through February tend to be the best investment months. In this connection, he suggested October and November as generally the best time for deposits to the Trust. He also advised that the District's OPEB Trust portfolio asset mix will be adjusted over time. Scott Rankin of Benefit Trust Company (BTC) indicated that they would like to have notice a year or two before the District anticipates withdrawing money from the Trust.

### **STATUS OF UPDATES TO THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE SUBSTANTIVE PLAN**

Roslyn Washington of Keenan Financial Services (KFS) advised the Board that the Comprehensive Compliance Plan, including the "Substantive Plan" have been converted into an electronic Library format. Roslyn provided Board members with their updated electronic Library that includes all updates through fiscal year ending June 30, 2011.

### **PRIVATE LETTER RULING**

In connection with the District's application for a Private Letter Ruling (PLR), Gail Beal of Keenan Financial Services (KFS) advised Board members that attorney Brian Johnston of Polsinelli Shughart PC is dealing with a new agent at the Internal Revenue Service (IRS). She advised Board members that this should not slow down the PLR process. The IRS is currently reviewing all the information provided to them. Gail indicated that she will continue to work with Brian, who will be sending an updated notice to all Futuris clients stating that a PLR should hopefully be issued by the IRS this year.

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

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

- October 19, 2012: 9:00 AM-11:00 AM

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**X. ADJOURNMENT**

A motion was made to adjourn the Meeting at 3:10 PM by Board member Steven Sutorus, seconded by Board member Tanya Rogers and was unanimously carried by the Board members present.

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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