

MINUTES

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT RETIREMENT BOARD OF AUTHORITY MEETING

March 20, 2014

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

I. CALL TO ORDER

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

Gail explained that effective January 1, 2014, a new regulatory environment requires individual votes or abstentions be recorded in the minutes for every action taken at a RBOA meeting.

Roll call was conducted with all members of the Retirement Board of Authority (RBOA) affirming their presence. All Service Organization representatives indicated their presence at the meeting.

A District's Board Resolution dated May 2008, formally designated specific positions to RBOA membership – it was noted that the position of Director of Human Resources is currently vacant but it is anticipated that this position on the RBOA will be filled in the next twelve months.

II. ROLL CALL

RETIREMENT BOARD OF AUTHORITY (the "Board") MEMBERS

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

Tim Oliver
Steven Sutorus
Lawrence Strong
Jose Torres

PROGRAM COORDINATOR

Senior Vice President
Account Manager

Gail Beal
Roslyn Washington

CONSULTANTS

Morgan Stanley Wealth Management (MS)
Benefit Trust Company (BTC)

Cary Allison
Scott Rankin

GUESTS

None

OTHER

None

III. PUBLIC COMMENTS

There were no Public comments or inquiries.

IV. APPROVAL OF AGENDA

To facilitate scheduling issues for RBOA member Tim Oliver, it was suggested that the Agenda platform be modified and reposition Item "Investment Policy Statement Review" immediately subsequent to Item "Portfolio Performance Review"

A motion was made by RBOA Chair Tim Oliver to approve the Agenda as presented. The motion was seconded by RBOA member Steven Sutorus and unanimously carried by a roll call of the RBOA members present.

V. APPROVAL OF MINUTES

The Minutes and Summary from previous Retirement Board of Authority (RBOA) meetings on August 23, 2012 and March 15, 2013 were reviewed and approved by the RBOA as consent items.

VI. ADMINISTRATION

DESIGNATION OF NEW MEMBERS TO THE RETIREMENT BOARD OF AUTHORITY

Roslyn Washington of Keenan Financial Services (KFS) explained that the Retirement Board of Authority (RBOA) governance structure has been designated by the District. She advised that positions on the RBOA have been formally designated through the District's Resolution May 8, 2008.

In this connection, new RBOA membership has been designated as follows: **Tim Oliver**, Interim Vice Chancellor, Fiscal Services; **Lawrence Strong**, Director, Internal Audits; and **Jose Torres**, Director, Fiscal Services to its membership.

A motion was made by RBOA member Jose Torres acknowledging the new RBOA membership. The motion was seconded by RBOA member Lawrence Strong and unanimously carried by a roll call of the RBOA members present.

REVIEW OF RETIREMENT BOARD OF AUTHORITY RESPONSIBILITIES

Gail Beal of Keenan Financial Services (KFS) provided an overview of governance and fiduciary protocols for the Retirement Board of Authority (RBOA) structure.

RBOA Governance duties include the following:

- Adoption and implementation of the terms of OPEB Trust Documents and the provisions of the Investment Policy Statement (IPS).
- Facilitate the processes necessary to ensure the Plan Administrator (the "District") executes applicable written agreements.
- Deliver contributions and allocation instructions to Benefit Trust Company in a timely manner.

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- Hold periodic meetings of the Retirement Board of Authority (RBOA), for the purpose of reviewing investment performance and compliance with Investment Policy Statement (IPS) provisions.
- Engage in an annual review and analysis of any applicable modifications to the Investment Policy Statement (IPS) through meetings and discussions with the Discretionary Trustee and its Registered Investment Advisor (RIA).
- Provide on a timely basis any necessary OPEB Plan participant information to Benefit Trust Company to include personal identification information (including Social Security numbers).
- Provide names of individuals authorized to act on behalf of the District's OPEB Investment Trust in writing.
- Benefit Trust Company and any delegated Investment Advisor shall be entitled to rely upon the accuracy and completeness of all information furnished to them by the Retirement Board of Authority (RBOA) or any person designated to act on behalf of the RBOA.

Gail advised that the provisions of California's Governmental Code and the Constitution of the State of California entrust the Retirement Board of Authority (RBOA) with additional fiduciary requirements. Subject to ongoing monitoring by the RBOA, many of these mandates may be prudently delegated to third parties with financial, fiduciary and administrative expertise. Per the provisions of the California Governmental Code and the California Constitution, fiduciary mandates include the following:

- Determine the anticipated liability for future benefits.
- Prudently invest the funds in order to safeguard principal, meet liquidity needs and achieve an appropriate investment return.
- Administer the program for the exclusive purpose of providing benefits to participants and their beneficiaries; and
- Engage in a prudent process for making all decisions related to the operation of the plan, including (1) the selection of investments and services for the program, (2) monitoring of the decisions periodically to ensure that they remain prudent and (3) documenting the process used to make the decisions.

In a brief discussion by the RBOA, Board member Tim Oliver suggested an **Annual RBOA Meeting** schedule with additional meetings conducted via teleconference as needs and requirements warrant. Responding to a question from RBOA member Tim Oliver, Gail Beal advised that the RBOA have been duly appointed by the District's Governing Board and are empowered to take action in all matters related to the OPEB Investment Trust.

REVIEW OF THE DISTRICT'S INVESTMENT TRUST PROGRAM AND THE ROLES OF THE PROGRAM COORDINATOR AND CONSULTANTS

Gail continued by reviewing the functional structure of the District's Public Entity OPEB Investment Trust. She explained the Program's strong "separation of function" through the layering of Keenan Financial Services (KFS), Benefit Trust Company (BTC) and Morgan Stanley Wealth Management (MS) with the Retirement Board of Authority (RBOA) providing oversight duties.

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The role of Keenan Financial Services as Program Coordinator includes the following:

- Preparation of the Retirement Board of Authority (RBOA) Meeting Agendas, Cover Pages and Board Packages.
- Preparation of the RBOA Meeting Minutes and assisting with the District's OPEB responsibilities as necessary.
- Facilitating and resolution of Action Items resulting from RBOA Meetings.
- Assisting the RBOA with administration and oversight of the District's OPEB Investment Trust program.
- Facilitating District compliance with GASB protocols and Regulatory compliance through the creation and maintenance of the Comprehensive Compliance Plan, including the "Substantive Plan".
- Maintenance of the District's OPEB Program documentation.

Scott Rankin of Benefit Trust Company (BTC) profiled the role of BTC as the Discretionary Trustee. Regarding the District's OPEB Investment Trust portfolio, Scott explained the integration of Benefit Trust Company (BTC) and its Registered Investment Advisor (RIA) Morgan Stanley Wealth Management (MS) in the financial and fiduciary process.

The fiduciary role of Benefit Trust Company (BTC) as Discretionary Trustee and Program Custodian include the following:

- As Discretionary Trustee, BTC will select of the District's OPEB Trust investments pursuant to the provisions of the Investment Policy Statement (IPS) and advice received from its Registered Investment Advisor.
- As Program Custodian, BTC will safe-keep the District's Public Entity Investment Trust securities.
- As Program Custodian, BTC will maintain accurate records of all financial transactions.
- As Program Custodian, BTC will provide periodic accrual accounting report production reflecting all deposits or receipts, disbursements, purchases, sales and income transactions, current asset holdings and the market value of the District's Investment Trust's portfolio.

Morgan Stanley Wealth Management (MS) as Registered Investment Advisor provides services as follows:

- Recommending Asset Allocation Models to Benefit Trust Company as Discretionary Trustee for the District's Target Rate of Return (TRR) portfolio.
- Recommending specific investments to Benefit Trust Company as Discretionary Trustee for the TRR Portfolios.
- Perform due diligence on all potential and recommended investments for the District's Public Entity Investment Trust.
- Provide a quarterly report to Benefit Trust Company (BTC) as Discretionary Trustee on the status of all current investments in the District's Public Entity Investment Trust.

ELECTION OF A CHAIR OF THE RETIREMENT BOARD OF AUTHORITY

San Bernardino Community College District has adopted a Retirement Board of Authority (RBOA) governance and fiduciary structure for the management of its Public Entity Investment Trust.

A motion was made by RBOA member Lawrence Strong to nominate **Steven Sutorus**, District Business Manager as Chair of the RBOA. The motion was seconded by RBOA member Jose Torres and unanimously carried by a roll call of the RBOA members present.

ELECTION OF A VICE-CHAIR OF THE RETIREMENT BOARD OF AUTHORITY

San Bernardino Community College District has adopted a Retirement Board of Authority (RBOA) governance and fiduciary structure for the management of its Public Entity Investment Trust.

A motion was made by RBOA member Jose Torres to nominate **Lawrence Strong**, District Director, Internal Audits as Vice-Chair of the RBOA. The motion was seconded by RBOA Chair Steven Sutorus and unanimously carried by a roll call of the RBOA members present.

ANNUAL REPORTING ON THE STATUS OF THE TRUST

Pursuant to the regulatory requirements of California Government Code Section 53216.4, the Annual Report on the Status of the Trust reflects the total assets in the Trust, the market value, the book value, all contributions and distribution activity (including all fees and expenses associated with the Trust), income activity, purchase activity, sales activity, and realized gains and losses for fiscal year ending June 30, 2013.

A motion was made by RBOA Chair Steven Sutorus ratifying that the Annual Report on the Status of the OPEB Investment Trust has been promulgated to the Trust's beneficiaries according to established District protocols. The motion was seconded by RBOA member Lawrence Strong and unanimously carried by a roll call of all the RBOA members present.

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

Roslyn Washington of Keenan Financial Services presented an executed copy of the "Ongoing OPEB Questionnaire & Due Diligence" Form indicating updates to the District's "**Substantive Plan**" for period ending June 30, 2013. Roslyn briefly reviewed the procedures and process for updating the District's "**Substantive Plan**" and she certified delivery of the "**Electronic Library**" reflecting GASB and Regulatory compliance for Plan Year ending June 30, 2013.

DISBURSEMENT REPORT

Roslyn Washington of Keenan Financial Services presented the Board with the Disbursement Report which reflected expenses associated with the management & operation of the District's Investment Trust for the period April 25, 2013 through February 28, 2014.

A motion was made by RBOA Chair Steven Sutorus to ratify the expenses associated with the management of the District's Investment Trust for the period of April 2013 through February 2014. The motion was seconded

by RBOA member Lawrence Strong and unanimously carried by a roll call of the RBOA members present.

ACTUARIAL VALUATION STUDY UPDATE

A new Actuarial Valuation Study in draft format with an effective date of February 1, 2014 was presented at the meeting. The District's consulting actuary Geoffrey Kischuk noted that had San Bernardino Community College District begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. The consulting actuary estimated the amount that would have accumulated to be **\$8,299,441.00**. This amount is called the "**actuarial accrued liability**" (**AAL**). Of this amount, **\$4,367,446.00** is the remaining unamortized balance of the initial unfunded AAL (**UAAL**). This leaves a "residual" of **\$3,931,995.00**. The consulting actuary continues by noting that San Bernardino CCD has established a GASB 43 qualifying trust for future OPEB obligations. The value of plan assets at January 31, 2014 was **\$3,288,535.00**. This leaves a residual unfunded actuarial accrued liability (**UAAL**) of **\$643,460.00**. A **6% discount rate** and a **30 year amortization period** were used to calculate the annual cost to amortize the residual unfunded accrued liability. The current year cost to amortize the residual "**unfunded actuarial accrued liability**" (**UAAL**) is **\$33,524.00**. Combining the normal cost with both the initial and residual **UAAL** amortization costs produces an **Annual Required Contribution (ARC)** of **\$861,397.00**. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45 and the consulting actuary notes that the ARC is used in lieu of (rather than in addition to) the "pay-as-you-go" costs.

The "**pay-as-you-go**" funding of retiree benefits from the Actuarial Valuation Study draft format reflects a projection of annual amounts needed to pay the District share of current retiree health premiums. The annual amount needed, as of 2014, is projected to be **\$462,830.00** and grows in annual increments to **\$901,319.00** in 2023.

RBOA members briefly discussed the **Discount Rate of 6%** assumed in the draft format with Gail Beal of Keenan Financial Services suggesting they review the **Discount Rate and the Target Rate of Return (TRR)** with their consulting actuary and she noted that the higher the discount rate the lower the liability. RBOA member Tim Oliver articulated some concerns regarding the District's increased liability as reflected in the draft format and inquired as to whether spouses are covered in their OPEB Plan. In this connection, RBOA member Jose Torres indicated that he will be checking to verify if spouses are covered.

FUTURE TRANSFER OF ASSETS INTO THE TRUST

RBOA Chair Steven Sutorus explained that the District is still determining its budget schedules and advised that District transfers to the Investment Trust will depend on the final draft of the Actuarial Valuation Study which he anticipates will be completed next month. Steven noted that the draft format of the Actuarial Valuation Study indicates that their total liability has increased from \$5 million-\$8million and he advised that the District is thinking of fully funding their OPEB Investment Trust.

PRIVATE LETTER RULING UPDATE

Gail Beal of Keenan Financial Services advised that she has been working with Brian Johnson of the law firm Polsinelli LLC on the Private Letter Ruling (PLR) application. Gail advised that the District's initial Retirement Board of Authority membership had decided to go to the Internal Revenue Service (IRS) and obtain a Private Letter Ruling (PLR). Since that time the IRS has responded by advising that they have no issues relative to the way the District's Code Section 115 Public Entity Investment Trust functions. However, they did request some language modification which was expedited to their satisfaction through Brian Johnson. Gail noted that Brian

Johnson has been in constant contact with the IRS through the PLR application process and recently he sent out a letter advising of a meeting with the Service to “discuss the content of the PLR documentation language that will serve as the official publication of the final approval letter being released”. Brian advised “that the review and discussion of proposed PLR language was productive and he awaits final feedback on the drafted PLR as proposed” In this connection, Gail advised that final approval is imminent.

VII. INVESTMENTS

PORTFOLIO PERFORMANCE REVIEW

Cary Allison of Morgan Stanley Wealth Management (MS), provided an overview of the District’s Public Entity Investment Trust Account Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending February 28, 2014. As of February 28, 2014, the District’s Investment Trust portfolio had an allocation of 54.6% in fixed income funds and 45.4% in equity funds (equity funds comprised 26.5% in domestic equity and 18.9% in international equity). The value of the portfolio as of December 31, 2013 was \$3,209,873.89 and the portfolio value as of February 28, 2014 is \$3,251,842.25. The February 28, 2014 portfolio value represents an annualized inception to date net rate of return of 3.40% compared to the Barclays Aggregate of 4.80% and the S&P 500 Adj for Divs of 6.23%. The investment results for the last year show a net increase of 7.79% versus the Barclays Aggregate of 0.16% and the S&P 500 Adj for Divs of 25.38%. The annualized latest three year (3) results reflect a net increase of 5.36% versus the Barclays Aggregate of 3.84% and the S&P 500 Adj for Divs of 14.35%. The annualized latest five year (5) results reflect a net increase of 12.96% versus the Barclays Aggregate of 5.14% and the S&P 500 Adj for Divs of 23.00%. The current dividend yield on the District’s Investment Trust portfolio fixed income investments was 3.3% while the current dividend yield on the aggregated portfolio was 2.5%.

Cary explained that the transition to a new Fed chief has gone smoothly and he believes that the Fed under new chief Janet Yellen will continue to wind down (\$10 Billion per month over the past three months) Quantitative Easing (QE) as the economy continues to be positioned to stand alone – while the gradual removal of monetary stimulus creates some uncertainty in the capital markets, he anticipates moderate growth of approximately 2.4%-2.6% in 2014. Relative to the global perspective, Cary noted that Europe is turning the corner towards positive growth while China’s economy is slowing somewhat – an environment that should support further equity gains in 2014.

A motion was made by RBOA member Lawrence Strong to accept the District’s Investment Trust Portfolio Performance Review as presented. The motion was seconded by RBOA member Tim Oliver and unanimously carried by a roll call of the Board members present.

INVESTMENT POLICY STATEMENT REVIEW

Scott Rankin of Benefit Trust Company (BTC) provided an overview of the Investment Policy Statement (IPS) relative to its investment objectives, ethics and conflict of interest provisions, and how the Target Rate of Return (TRR) investment process is implemented. He advised that the IPS provisions provide parameters to the Discretionary Trustee and its designated Registered Investment Advisor (RIA) as to RBOA wishes for the Investment Trust’s portfolio. RBOA member Tim Oliver observed that the IPS signature page had not been updated since 2010. In this connection, Scott advised that he will send updated forms so that the signature page can be executed by current RBOA membership. Scott asked if the members of the RBOA anticipate any withdrawals from the District’s Investment Trust. RBOA member Jose Torres responded by indicating that the

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Investment Trust is in an accumulation phase and he does not anticipate any withdrawals.

A motion was made by RBOA member Tim Oliver to update the Investment Policy Statement signature page with the signatures of current RBOA members. Tim continued the motion by reaffirm the current provisions and Target Rate of Return. The motion was seconded by RBOA Chair Steven Sutorus and unanimously carried by a roll call of the RBOA members present.

MARKET OVERVIEW

Cary presented portfolio updates for the Public Entity Investment Trust Model Portfolios. He advised Board members that there were manager changes in the District's Trust Model Portfolio platform in November 2013. While the District's Investment Trust portfolio maintains a balanced position, these changes will serve to provide the portfolio with slightly more Emerging Market (EM) and REIT positioning going into 2014.

Towards this end, he advised that the following funds have been added to the Model Portfolio International/Global Equities platform:

- American Funds New Perspective Fund (ANWFX).
- American Funds New World Fund (NFFFX).
- Brandes Emerging Markets Fund (BEMIX).

To bolster the District's Model Portfolio Fixed Income platform, Cary noted that the Oppenheimer International Bond (OIBYX) has been replaced by Hartford's World Bond Fund (HWDIX).

VIII. INFORMATION REPORTS

RETIREMENT BOARD OF AUTHORITY COMMENTS

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

PROGRAM COORDINATOR/CONSULTANT COMMENTS

On behalf of the District's Investment Trust Service Organizations representatives, Gail Beal of Keenan Financial Services welcomed the new Retirement Board of Authority (RBOA) membership and thanked them for performing important governance duties relative to the Investment Trust.

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next RBOA meeting is scheduled as follows:

- **March 19, 2015: 10:00 AM - 12:00 PM.**

X. ADJOURNMENT

There being no further business to conduct, the Retirement Board of Authority (RBOA) meeting was adjourned at 12:00 PM by Gail Beal, Senior Vice President, Keenan Financial Services.

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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: Vice Chancellor of Fiscal Services, San Bernardino Community College District, 114 South Del Rosa Drive, San Bernardino, CA 92408