

**MINUTES**

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

**MAY 14, 2015  
1:00 PM – 3:00 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 1.15 PM by Gail Beal, Senior Vice President, Keenan Financial Services (KFS).

Roll-call reported all the Retirement Board of Authority (RBOA) membership present. All Service Organization representatives were also present at the meeting.

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**II. ROLL CALL**

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

Interim Vice Chancellor of Business & Fiscal Services  
Vice Chancellor of Human Resources  
Business Manager  
Director, Internal Audits/Director, Fiscal Services  
Director of Human Resources

Jose Torres  
Dr. Lisa Norman  
Steven Sutorus  
Lawrence Strong  
Vacant

**PROGRAM COORDINATOR**

Senior Vice President  
Account Manager  
Account Executive  
Operations Manager

Gail Beal  
Roslyn Washington  
Sharen Stanek- Lowe  
Issac Stern

**CONSULTANTS**

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

Cary Allison  
Scott Rankin

**GUESTS**

**OTHER**

None

### III. PUBLIC COMMENTS

There were no public comments or inquiries.

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### IV. ADMINISTRATION

#### DESIGNATION OF A NEW MEMBER TO THE RETIREMENT BOARD OF AUTHORITY

The meeting started late due to some RBOA members tardy arrival and RBOA voting functionality stipulated the Agenda item "Designation of a New Member to the Retirement Board of Authority" be repositioned upfront to immediately acknowledge and welcome **Dr Lisa Norman** to RBOA membership.

A motion was made by RBOA Vice-Chair Lawrence Strong to acknowledge and welcome the District's Vice Chancellor of Human Resources **Dr. Lisa Norman** as a new Retirement Board of Authority (RBOA) designee. The motion was seconded by RBOA Chair Steven Sutorus and was unanimously carried by a roll-call of the RBOA membership.

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### V. APPROVAL OF AGENDA

A motion was made by RBOA Vice-Chair Lawrence Strong to approve the reconfigured Agenda as profiled. The motion was seconded by RBOA member Dr. Lisa Norman and was unanimously carried by a roll-call of the RBOA membership present.

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### VI. APPROVAL OF MINUTES

A motion was made by RBOA Vice-Chair Lawrence Strong to approve the Minutes of the previous meeting on March 20, 2014 as presented. The motion was seconded by RBOA Chair Steven Sutorus and was unanimously carried by a roll-call of the RBOA membership present. RBOA member Dr. Lisa Norman abstained from voting as she was not present at the previous meeting.

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### VII. ADMINISTRATION (Cont.)

#### 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, 2014.

A motion was made by RBOA Vice-Chair Lawrence Strong acknowledging the Annual Report has been promulgated to the Trust's beneficiaries in July 2014 via a transmittal letter on District letterhead and in

accordance with established protocols. The motion was seconded by RBOA member Dr. Lisa Norman and was unanimously carried by a roll-call of the RBOA membership present.

### **DISBURSEMENT REPORT**

Roslyn Washington of Keenan Financial Services presented the RBOA membership with the Disbursement Report reflecting fees for each Service Organization compliance duties to GASB 43/45 protocols & applicable Regulatory statutes and the Management/Operation of the District's Investment Trust for the period May 2014 through April 2015.

A motion was made by RBOA Vice- Chair Lawrence Strong ratifying expenses associated with compliance duties required for GASB 43/45 protocols & applicable Regulatory statutes and the Management/Operation of the District's OPEB Investment Trust for the period of May 16, 2014 through April 7, 2015. The motion was seconded by RBOA member Dr. Lisa Norman and was unanimously carried by a roll-call of the RBOA membership present.

### **ACTUARIAL VALUATION STUDY UPDATE**

RBOA Chair Steven Sutorus advised that the District will be working with its actuarial consultant Geoff Kischuk of Total Compensation Systems, Inc. towards a new Actuarial Valuation Report with an anticipated completion date of January 2016.

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

Roslyn Washington of Keenan Financial Services (KFS) explained that the **"OPEB Questionnaire & Due Diligence Form"** for fiscal 2013/2014 had been executed on August 8, 2014 by the District's Business Manager and RBOA Chair Steven Sutorus. Roslyn noted that there were no changes to the District's "Substantive Plan" for fiscal year ended June 30, 2014. She further advised that the Comprehensive Compliance Plan ("e-Library") reflecting compliance with applicable Regulatory statutes had also been updated for fiscal year ended June 30, 2014 and had been delivered to the District.

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

A District transfer of **\$3,936,364.00** to their OPEB Investment Trust in June 2014 was ratified by the RBOA membership and it was acknowledged that the deposit brought the OPEB Trust to virtually a fully funded status vis-à-vis the District's actuarial accrued liability (AAL) as reported the Actuarial Valuation Study dated February 1, 2014.

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## **VIII. 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 March 31, 2015. As of March 31, 2015, the District's Investment Trust portfolio had an allocation of 54.1% in fixed income funds and 45.9% in equity funds (equity funds comprised 26.8% in

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domestic equity and 19.1% in international equity). The value of the portfolio as of December 31, 2014 was \$7,251,188.51 and the portfolio value for period ended March 31, 2015 is \$7,405,345.16. The March 31, 2015 portfolio value represents an Annualized Inception to Date net rate of return of 3.59% compared to the Barclays Aggregate of 4.84%; the Barclays Global Agg Bd. Unhedged of 3.14%; the MSCI EAFE of 0.20%; the MSCI ACWI Ex US Net of -0.14%; the S&P 500 Adj for Divs of 7.15%; the 50% MSCI ACWI/50% Barclays Agg of 4.35%. The investment results for the last (1) year show a net increase of 4.54% versus the Barclays Aggregate of 5.70%; the Barclays Global Agg Bd. Unhedged of -3.66%; the MSCI EAFE of -0.92%; the MSCI ACWI Ex US Net of -1.05%; the S&P 500 Adj for Divs of 12.74% and the 50% MSCI ACWI/50% Barclays Agg of 5.66%. The annualized latest three (3) year results reflect a net increase of 6.26% versus the Barclays Aggregate of 3.11%; the Barclays Global Agg Bd. Unhedged of -0.20%; the MSCI EAFE of 9.02%; the MSCI ACWI Ex US Net of 6.40%; the S&P 500 Adj for Divs of 16.11% and the 50% MSCI ACWI/50% Barclays Agg of 7.03%. The annualized latest five (5) year results reflect a net increase of 6.14% versus the Barclays Aggregate of 4.42%; the Barclays Global Agg Bd. Unhedged of 2.29%; the MSCI EAFE of 6.16%; the MSCI ACWI Ex US Net of 4.81%; the S&P 500 Adj for Divs of 14.47% and the 50% MSCI ACWI/50% Barclays Agg of 6.99%. The current dividend yield on the District's Investment Trust portfolio fixed income investments was 4.0% while the current dividend yield on the aggregated portfolio was 2.9%.

Cary briefly reviewed indices used in evaluating the performance metrics of selected sectors of the global capital markets i.e. the MSCI EAFE; the MSCI ACWI Ex US; the Barclays Global Aggregate Bd. Unhedged and the S&P 500. Cary notified the RBOA membership of recent Public Entity Model Portfolio Fund changes and advised that he will detail these modifications to the Trust's Portfolio Equity & Fixed Income platforms at the next meeting. Cary explained that in the U.S. the Fed is setting a course for higher short-term rates while the European Central Bank (ECB) and Bank of Japan (JOP) are doing the opposite. In this connection, he advised that while European economies are responding well to ECB accommodations, nowhere do we see economic growth in the range of 3%-4%. Cary identified additional economic takeaways as follows:

**Domestic Preferred over International Equities:** He advised that while international stocks are doing well relative to domestic equities, Morgan Stanley analysts continue to prefer domestic over international equities. Relative to domestic equity valuations, he noted that with S&P 500 trading at 16 times earnings, the economic environment still remains supportive for equities. He noted stock market bargains in Japan while stock friendly actions by the European Central Bank (ECB) will support attractive valuations in the region for 2015. **Raise in Interest Rates:** Cary anticipates that in the U.S. the Fed will raise Short-Term rates gradually with an uptick of perhaps .5% in the third quarter of the 2015 calendar year but he expects Long-Term rates to stay low for some time to come. He believes that the Trust's portfolio current balanced position is well suited for anticipated interest rate hikes. **Inflation:** Cary advised that U.S gross domestic product (GDP) should be in the range of 2.0% to 2.5% growth and he anticipates that inflation will stay low for now. In this connection, he explained that there is little to no wage growth in the economy. **A Bumpier Road for Equities:** The past few years have been characterized by unusual calm for equities. Cary advised that 2015 is likely to be marked by a return to more typical levels of volatility. However, he explained that the good news is that current conditions are broadly supportive of stocks and any corrections that volatility brings are not likely to be severe.

A motion was made by RBOA Vice-Chair Lawrence Strong to accept the Portfolio Performance Review as presented. The motion was seconded by RBOA member Dr. Lisa Norman and was unanimously carried by a roll-call of the RBOA membership present.

## MARKET OVERVIEW

Applicable metrics from Morgan Stanley's Global Investment Committee (GIC) capital markets overview for first quarter 2015 was presented by Cary Allison of Morgan Stanley Wealth Management.

**Introduction:** From a fundamental standpoint, this year has been similar to last year in that the U.S. economy suffered from a harsh winter, leaving first quarter real GDP growth below the already anemic 2% trend-line growth in place since the financial crisis. Market volatility was driven by a decline in commodity prices and the rise in the U.S. dollar. Market performance in the first quarter of 2015 also hung on every utterance of Janet Yellen, chair of the Federal Reserve.

**US Economy:** The Department of Commerce estimated that Gross Domestic Product increased at an annual rate of 2.2% in the fourth quarter of 2014, in comparison to 5.0% increase in the third quarter of 2014. Morgan Stanley economists forecast U.S. Real GDP will be 2.4% in 2014 and 3.3% in 2015. The seasonally adjusted unemployment rate fell from 5.6% for December 2014 to 5.5% for February 2015. Inflation also remained low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index decreased 0.7% in January and increased 0.2% in February. The Census Bureau reported that private-sector housing starts in February 2015 were at a seasonally adjusted annual rate of 897,000 – 3.3% below 2014 housing starts. The rise in housing starts over the past several years indicates that the housing market is rebounding despite some intermittent setbacks. **US Equity Markets:** The Dow Jones Industrial Average rose 0.3% in the first quarter. The NASDAQ Composite Index advanced 3.9% for the quarter. The S&P 500 Index rose 1.0% for the quarter, its ninth consecutive quarterly increase. The large-cap Russell 1000 Growth Index advanced 3.8% while the Russell 1000 Value Index, also a large-cap index, decreased 0.7% for the quarter. The Russell Midcap Growth Index rose 5.4% for the quarter while the Russell Midcap Value Index rose 2.4% for the quarter. The Russell 2000 Growth Index, a small-cap index, increased 6.6% for the quarter while the Russell 2000 Value Index, also a small-cap index, increased 2.0% for the quarter. **Global Equity Markets:** In the first quarter, emerging markets (EM) and global equities had positive results. The MSCI Index (a benchmark for developed markets) rose 5.0% for U.S.-currency investors and rose 11.0% for local-currency investors, as the U.S. dollar appreciated in relation to the currencies of many nations in the index. The MSCI Emerging Market Index increased 2.3% for U.S.-currency investors and rose 4.9% for local-currency investors, as the U.S. Dollar appreciated in relation to many emerging-market currencies. The MSCI Europe Index increased 3.6% for U.S.-currency investors and 11.7% for local-currency investors during the quarter. **US Bond Market:** In the first quarter, bond market returns increased slightly – the Barclays U.S. Aggregate Bond Index, a general measure of the bond market, rose 1.6%. Interest rates declined during the quarter, as the yield on the 10-Year U.S. Treasury note fell to a quarter-end 1.92% from 2.17% at the end of the fourth quarter of 2014.

## INVESTMENT POLICY STATEMENT REVIEW

Scott Rankin of Benefit Trust Company (BTC) explained to the RBOA membership that Governance and Fiduciary protocols require periodic adjustments to the provisions of the District's Investment Policy Statement (IPS). In his overview, Scott noted that the IPS is constituted of two parts – the first part details the fiduciary and governance principles which have been extracted from the mandates of the California Government Code Sections 53620 through 53622 which draws extensively from the Employee Retirement Income Security Act (ERISA). He explained that the initial part of the IPS incorporates fiduciary mandates related to the “**Prudent Person Standard**”; the “**Exclusive Benefit Standard**” and the duty to diversify investments “so as to minimize the risk of large losses”. In this framework, Scott advised that the District's Trust portfolio investments are designed per a prudent decision-making process; selected to provide benefits exclusively to the OPEB Plan participants

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and invested so as to minimize risk of large losses. Scott also explained the Trust's portfolio regulatory requirement to have "a broad range of investment choices that have distinctly different risk return characteristics".

Cary Allison of Morgan Stanley Wealth Management noted that the second part of the IPS addresses permitted and non-permitted investments and strategies. He advised that additional language is required to detail the Trust's portfolio Equity and Fixed Income platform restrictions in tracking current institutional investment practices.

**District Investment Trust's Portfolio--Equity Platform:** Cary advised that the restrictions listed in the IPS shall be permitted in the context of "open-end or closed-end mutual-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, and the investments provide for daily liquidity." He continued by explaining that "additionally, certain securities may not be held directly, but only in open-ended or closed-end mutual funds, comingled funds, or ETFs i.e. common stocks, preferred stocks, and securities convertible into common stocks and securities that carry the right to purchase common of non-U.S. companies traded on global exchanges, traded in any currency, as well as restricted securities of U.S. and non-U.S. companies, including securities issued through private offerings, and forward currency contracts or currency futures to hedge foreign currency exposure". Benchmarks included for the measurement of the District's Investment Trust equity performance are the S&P 500 for Domestic Equities and the MSCI EAFE and MSCI ACWI ex. U.S for International Equities.

**District Investment Trust's Portfolio--Fixed Income Platform:** Cary continued by advising that the restrictions listed in the IPS shall be permitted in the framework of "open-end or closed-end mutual-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, risk mitigation, and the investments provide for daily liquidity." He further explained that "investment in non-investment grade bonds or loans by such funds shall be permitted so long as the average aggregate rating of the funds are investment grade, and in the opinion of the Trustee the proportion of non-investment grade bonds to investment grade bonds in the portfolio is prudent." Benchmarks included for the measurement of the District's Investment Trust fixed income performance are Barclay's Aggregate Bond Index for Domestic Fixed Income Securities and the Barclay's Global Bond Index for International Fixed Income Securities.

A motion was made by RBOA Vice-Chair Lawrence Strong to approve the additional provisions of the Investment Policy Statement (IPS) as presented. The motion was seconded by RBOA member Dr. Lisa Norman and was unanimously carried by a roll-call of the RBOA membership present.

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## IX. EDUCATION

Gail Beal of Keenan Financial Services (KFS) discussed the Governmental Accounting Standards Board (GASB) approval of two new draft standards that, when finalized, will impact the financial accounting and reporting of OPEB for state and local agencies. Brett advised that the proposed standards are intended to bring OPEB accounting and reporting in line with the standards GASB issued for public pensions in 2012.

The **Employer Draft Standard** is entitled "***Accounting and Financial Reporting for Postemployment Benefits Other than Pensions***" and is intended to supersede GASB standard No. 45. The **Plan Draft Standard** is entitled "***Financial Reporting for Postemployment Benefit Plans other than Pension Plans***" and is intended to supersede

GASB standard No.43.

Gail also presented a 'Keenan Briefing' to the RBOA membership which explains that the **"Employer Draft Standard"** proposes using a discount rate that applies: (a) the expected long-term rate of return on OPEB Plan investments for which plan assets are expected to be available to make projected benefit payments and (b) the use of an interest rate on a 20-year tax-exempt, high-quality general obligation municipal bond yield or index to project benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust (c) the use of a single actuarial cost allocation method – "entry age normal" – rather than the current choice among six actuarial cost methods. The **"Plan Draft Standard"** addresses financial reporting for *defined benefit* OPEB plans that are administered through a qualified trust. The proposed standards would require governmental employers and OPEB plans to present much more extensive note disclosure and Required Supplementary Information (RSI) about their OPEB liabilities.

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## X. 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.

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## XI. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

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

- **April 13, 2016: 1:00 PM–3:00 PM.**

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## XI. ADJOURNMENT

A motion was made by RBOA Vice-Chair Lawrence Strong to adjourn the Meeting at 2:10 PM. The motion was seconded by RBOA member Dr. Lisa Norman and was unanimously carried by a roll-call of the RBOA membership 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: Jose Torres, Interim Vice Chancellor of Fiscal Services, San Bernardino Community College District, 114 South Del Rosa Drive, San Bernardino, CA 92408