MINUTES

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
JUNE 18, 2014
1:00 PM- 3:00 PM

VENTURA COUNTY COMMUNITY COLLEGE
DISTRICT BOARD ROOM
255 WEST STANLEY AVENUE, SUITE 150
VENTURA, CA. 93001
(805) 652-5500

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 1:07 PM by RBOA Chair Brian Fahnestock.

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

II. ROLL CALL

RETIREMENT BOARD OF AUTHORITY (the "Board") MEMBERS:

Vice Chancellor, Business and Administrative Services	Brian Fahnestock
Vice Chancellor, Human Resources	Michael Shanahan
Director of Fiscal Services	Vacant
Director of Human Resources Operations (Interim)	Gary Maehara

PROGRAM COORDINATOR:

Senior Vice President	Gail Beal
Account Manager	Roslyn Washington

CONSULTANTS:

Morgan Stanley Wealth Management (MS)	Cary Allison
Benefit Trust Company (BTC)	Scott Rankin

OTHERS

III. PUBLIC COMMENTS

There were no public comments or inquiries.

IV. APPROVAL OF AGENDA

A motion was made by RBOA member Michael Shanhan to approve to Agenda as presented. The motion was seconded by RBOA member Gary Maehara and was unanimously carried by a roll call of the RBOA members present.

V. APPROVAL OF MINUTES

The Minutes from the previous Retirement Board of Authority (RBOA) meeting on March 4, 2014 were reviewed and approved by the RBOA as a consent item.

VI. 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 May 31, 2014. As of May 31, 2014, the District's Investment Trust portfolio had an allocation of 49.6% in fixed income funds and 50.4% in equity funds (equity funds comprised 30.4% in domestic equity and 20.0% in international equity). The value of the portfolio as of December 31, 2013 was $14,864,971.30 and the market value of the portfolio as of May 31, 2014 is $15,485,242.10. The May 31, 2014 portfolio value represents an Annualized Inception to Date net rate of return of 6.99% compared to the Barclays Aggregate of 4.20% and the S&P 500 Adj for Divs of 14.93%.
The investment results for the last year show a net increase of 9.44% versus the Barclays Aggregate of 2.71% and the S&P 500 Adj for Divs of 20.45%. The annualized latest three year results reflect a net increase of 6.58% versus the Barclays Aggregate of 3.56% and the S&P 500 Adj for Divs of 15.14%.
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 2.4%.

Cary also provided an overview of the District's Public Entity Investment Trust Portfolio Performance Report as of March 31, 2014. In his commentary to the Retirement Board of Authority (RBOA) membership relative to the District's Investment Trust portfolio, Cary noted that the portfolio currently has a 50/50 equity to fixed-income allocation and considering that the District's unfunded actuarial accrued liability (UAAL) is in excess of $100 million, he suggested more equity exposure for the portfolio in light of an anticipated accumulation phase of 20-25 years. He explained that the Trust's current Target Rate of Return (TRR) of 7.0% with an additional 0.5% allocated to expenses positions the portfolio with a moderate-to-growth investment objective and submitted that a growth objective may be more appropriate for their long-term time horizon. Cary also advised the RBOA membership that the Investment Trust's portfolio was rebalanced in November 2013 and the International/Global Equity platform was enhanced in by incorporating the following funds: 1. American Funds New Perspective Fund (ANWFX). 2. American Funds New World Fund (NFFFX). 3. Brandes Emerging Markets Fund (BEMIX). He noted that the Investment Trust's Model Portfolios Fixed Income platform was also restructured in November 2013 by replacing the Oppenheimer International Bond (OIBYX) with the Hartford's World Bond Fund (HWDIX). He advised that Morgan Stanley analysts favor stocks over bonds long-term and suggested that fixed income out performance thus far in 2014 is explained by the fact that economic growth has not been as strong as anticipated this year. He noted that while stocks are not expensive they are not cheap. Inflation is not a concern at the moment as inflation goes with wage increases and that is not happening. He is anticipating an upward shift in interest rates but the uptick will not be dramatic.

A motion was made by RBOA member Michael Shanahan to accept the Portfolio Performance Review as presented. The motion was seconded by RBOA member Gary Maehara and unanimously carried by a roll call of the RBOA members present.

MARKET OVERVIEW

Cary Allison of Morgan Stanley Wealth Management (MS) presented the Retirement Board of Authority (RBOA) with Morgan Stanley's Capital Markets Overview ("Markets Overview") for the first quarter of 2014. Relative to the U.S economy, the Capital Markets Overview noted that job gains and a slight improvement in the labor force participation rate have kept unemployment steady at 6.7 nationally. The number of long-term unemployed (3.7 million) remained relatively unchanged in March. Inflation remained low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index rose 0.1% in both January and February. Morgan Stanley & Co. LLC economists forecast a 1.6% inflation rate for 2014/2015. The Census Bureau reported that private-sector housing starts in February 2014 were at a seasonally adjusted annual rate of 907,000 – 6.4% below February 2013 housing starts. The decline in housing starts over the past year indicates that the housing market has cooled due to rising mortgage rates and climbing house prices. Relative to the U.S. Equity markets, the Markets Overview noted that Dow Jones Industrial Average fell 0.2% in the first quarter, The NASDAQ Composite advanced 0.8% and the S&P 500 rose 1.8% for the quarter. Accordingly, Cary advised that S& P 500 stocks are trading at 16-16.5 time earnings noting that they are not expensive but not really cheap either. Regarding to Global Equity, in the first quarter, emerging markets (EM) and global equities mostly declined. The MSCI EAFE Index (a benchmarks foe developed markets) rose 0.8. In Europe, austerity programs have created a drag on GDP growth and European corporate profit margins and earnings per share have lagged U.S. companies by a widening margin since 2011. China lost 5.86% during the quarter as a result of slowing growth and concerns about weakness in the financial sector. Regarding the U.S Bond Market, in the first quarter the bond market benefited from weak economic news – the Barclays U.S. Aggregate Bond Index, a general measure of the bond market, increased 1.8% for the quarter. Interest rates declined during the quarter, as the yield on the 10-year U.S. Treasury note fell to a quarter-end 2.7% from 3.03% at the end of December 2013.

FUTURIS INVESTMENT PROCESS/RISK TOLERANCE QUESTIONNAIRE

Cary Allison of Morgan Stanley Wealth Management (MS) provided an overview relative to the processes of for selecting the District's Investment Trust portfolio. He continued by conducting a Risk Tolerance Questionnaire for three new members of the Retirement Board of Authority (RBOA). He advised that the RBOA should view the Risk Tolerance Questionnaire as a tool to gauge the risk attitude and risk capacity of its membership. Upon completion of the Risk Tolerance Questionnaire, the RBOA membership discussed the capital market implications of moving the District's portfolio Target Rate of Return (TRR) from its current position of **7.00%** to **7.5% with 0.5%** allocated to expenses related to GASB compliance and the management and operation of the Trust.

INVESTMENT POLICY STATEMENT UPDATE

Scott Rankin of Benefit Trust Company (BTC) advised that the District's Investment Trust portfolio has a current Target Rate of Return (TRR) of 7.0% with an additional 0.5% allocated to expenses related to the GASB compliance as well as the management/operation of the Trust. Subsequent to a brief discussion relative to the current TRR, the RBOA membership elected to move the TRR from a moderate growth to a growth investment objective. The uptick reflects a new TRR of **7.5%** with an additional **0.5%** allocated to expenses related to GASB compliance and the management/operation of the Investment Trust.

A motion was made by RBOA member Michael Shanahan to change the current Target Rate of Return parameters from a position of moderate-to-growth to a growth investment objective. The motion was seconded by RBOA member Gary Maehara and was unanimously carried by a roll call of all the RBOA membership present

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VII. EDUCATION

Cary Allison presented the Retirement Board of Authority (RBOA) with a Morgan Stanley (MS) Research Paper entitled **"US Economic Outlook: Hard Winter and a Spring Thaw"**. The MS Research Paper advises that while the harsh winter in the U.S. has obscured near-term economic trends, it anticipates that after the first quarter of 2014 ***"the economy should rebound like an uncoiling spring on the expression of pent-up demand".***

Takeaways from the MS Research Paper include the following:

Modest Economic Growth: The MS Research Paper advises that U.S. economic growth expands at 2.7% this year and only a touch slower in 2015.

Rising Interest Rates: Modestly stronger growth should lead to slightly higher interest rates. The MS Research Paper advises that "***the Yellen-led Fed will not be in any hurry to lift rates"***.

Quantitative Easing (QE): The MS Research Paper forecast provides a smooth runway for declining asset purchases of $10 billion per FOMC meeting, i.e. the taper. The Research Paper advises "the reality is that a majority of Fed officials had already lost faith in quantitative easing by early 2013, in that its marginal benefits did not exceed its marginal costs and any signal it sends could be better accomplished with assertive forward rate guidance. The Research Paper advises that by October, net purchases should end, with the Feds balance sheet leveling out at around $4.5 billion – the Fed holds steady thereafter, with maturing and prepaying proceeds reinvested and sales taken off the table – a few meetings before the end of 2015, the Fed may stop reinvestments to let the balance sheet shrink. Operationally, the rate rise anticipated in early 2016 will be engineered by hiking the rate on the fixed-rate allotment repurchase facility and the interest rate paid on excess reserves".

Near-Flat Inflation: The MS Research Paper advises that ***"inflation moves up slowly over the next seven quarters, tracking below the Fed's goal throughout the forecast horizon. The first rate hike is penciled in for early 2016".***

Employment: Once past the weather disruptions, the MS Research Paper anticipates ***"job gains to coalesce***

around 200,000, on net, each month". The unemployment rate by year-end is anticipated to be around 5.80% and with the economy working off labor market slack, it gives us a new unemployment forecast of approximately 5.4% at the end of the research horizon (year-end 2015).

Housing: The MS Research Paper advises that in the past three years, residential investment has risen at a better than 9% annual rate, the strongest run since the early 1990s.With such an impressive recovery, has housing run out of steam? The Research Paper notes that "we're still not building nearly enough new homes to accommodate the likely number of new households in coming years".

Corporate Financial Health: The MS Research Paper advises that "we've seen an unprecedented twenty straight quarters of aggregate corporate free cash flow generation. When companies see the pickup in aggregate demand we are anticipating, they certainly have the wherewithal to respond by investing more and hiring additional workers."

Government: The MS Research Paper advises that the government shutdown is long behind us and the threat of another has been removed from the forecast horizon. The Research Paper continues by observing that although another debate over the debt ceiling is slated to return around rear-end, ***"the bulk of fiscal tightening has been absorbed and is being outpaced by private demand. Moreover, state and local governments continue to see dramatic budget improvements as tax collections surpass projections, further enabling a rebound in spending".***

VIII. ADMINISTRATION

DISBURSEMENT REPORT

Roslyn Washington of Keenan Financial Services presented the RBOA membership with the Disbursement Report reflecting expenses associated with the management/operation of the District's Investment Trust for the period of March 20, 2014 through May 21, 2014.

A motion was made by RBOA member Michael Shanahan to ratify the expenses associated with the management/operation of the District's Investment Trust for the period of March 2014 through May 2014. The motion was seconded by RBOA member Gary Maehara and was unanimously carried by a roll call of the RBOA membership present.

FUTURE TRANSFER OF ASSETS INTO THE TRUST

The RBOA membership advised that they do not anticipate any modifications in the District's current funding schedule.

IX. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

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

PROGRAM COORDINATOR/CONSULTANT COMMENTS

Gail Beal of Keenan Financial Services (KFS) noted that several districts had presented the performance of their OPEB Investment Trust to their Governing Board of Trustees and suggested that the RBOA consider making such a presentation. RBOA Chair Brian Fahnestock liked the idea and proposed that this should be done within the next few months.

Gail also advised the RBOA membership that GASB had approved the issuance of two OPEB Exposure Drafts designed to enhance accounting and financial reporting by state and local governments. The **OPEB Employer Exposure Draft** is entitled ***"Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".*** The **OPEB Plan Exposure Draft** is entitled ***"Financial Reporting for Postemployment Benefit Plans other than Pension Plans".***

Gail provided a handout to the RBOA membership which explained that the **"OPEB Employer Exposure Draft"** 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. She noted that governmental entities in all types of OPEB plans will be expected to present more extensive note disclosures and required supplementary information relative to their OPEB liabilities. The "**OPEB Plan Exposure Draft"** addresses financial reporting for *defined benefit* OPEB plans that are administered through a qualified trust. It also details proposed note disclosure requirements for *defined contribution* OPEB plans.

X. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

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

- November 21, 2014: 10:00 AM – 12:00 PM.

Core Agenda Items will be reviewed as well as the following:

- Retirement Board of Authority Vice-Chair selection.
- Retirement Board of Authority designation of new members.

XI. ADJOURNMENT

There being no further business to conduct, the Retirement Board of Authority RBOA) meeting was adjourned at 2:15 PM by Board Chair Brian Fahnestock.

Americans with Disabilities Act: The Ventura County 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 modifications or accommodation, in order to participate in a public meeting of the Ventura County Community College District Retirement Board of Authority, shall be made to: Brian Fahnestock, Vice Chancellor, Business and Administrative Services, Ventura County Community College District, 255 West Stanley Avenue, Suite 150, Ventura, CA. 93001.